

Message Text

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ACTION OPIC-06

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DEPT PASS OPIC, EXIM, COMMERCE

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SUBJECT: CONVERTIBILITY CONTROLS - ZAIRE

REF: STATE A-1424

1. THE BULK OF U.S. INVESTMENT IN ZAIRE IS REGISTERED UNDER THE INVESTMENT CODE OF 1969, AND THOSE COMPANIES WITH WHICH OPIC PRESENTLY HAS CONTRACTS OR WOULD LIKELY IN THE FUTURE ESTABLISH INSURANCE CONTRACTS FOR NON-CONVERTIBILITY WILL BE REGISTERED UNDER THE INVESTMENT CODE. ARTICLE 21, CHAPTER IV OF THE INVESTMENT CODE GUARANTEES THE RIGHT TO REPATRIATE PROFITS, WITHOUT SPECIFYING A LIMITATION, AND CAPITAL AT ITS CURRENT VALUE (ACCORDING TO THE "DIRECTION DES INVESTISSEMENTS," THIS INCLUDES CAPITAL GAINS). ARTICLE 22, CHAPTER IV GUARANTEES THE RIGHT TO REMIT PRINCIPAL AND INTEREST PAYMENTS ON FOREIGN LOANS RELATED TO THE INVESTMENT. THESE GUARANTEES CONSIDERABLY STRENGTHEN THE POSITION OF INVESTORS HAVING THE GUARANTEE, SINCE DIVIDENDS, PROFITS, AND RENTAL INCOME TRANSFERS, EXCEPT FOR THOSE SPECIFICALLY GUARANTEED, HAVE BEEN SUSPENDED BY THE BANK OF ZAIRE FOR APPROXIMATELY THE LAST YEAR.

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2. SINCE THE FIRST QUARTER OF 1975, ZAIRE HAS SUFFERED

FROM A PROGRESSIVELY MORE DIFFICULT FOREIGN EXCHANGE SITUATION WHICH CAUSED THE VIRTUAL EXHAUSTION OF FOREIGN EXCHANGE RESERVES DURING 1975. BEGINNING IN JANUARY 1975 A NUMBER OF MEASURES, INCLUDING THE ABOVE-MENTIONED SUSPENSION OF TRANSFERS WERE INSTITUTED IN ORDER TO CONSERVE THE COUNTRY'S FOREIGN EXCHANGE INCOME. ONE OF THE MORE SIGNIFICANT MEASURES WAS A BANK OF ZAIRE REQUIREMENT THAT REQUIRED SUPPLIERS TO EXTEND 180-DAY MINIMUM TERMS ON SALES TO ZAIRE. LETTERS OF CREDIT ISSUED UNDER THIS REGIME WERE TO CARRY THE EXTRA IMPRIMATUR "GUARANTEED BY THE BANK OF ZAIRE." ALSO DIVIDENDS, PROFITS, AND RENTAL INCOMES TRANSFERS WERE HALTED. DESPITE THE GOVERNMENT'S EFFORTS DURING 1975, PAYMENTS BECAME INCREASINGLY SLOW AND THE PROMISE OF PAYMENT AT THE END OF 180 DAYS HAS NOT BEEN UNIVERSALLY FULFILLED. PAYMENTS DUE ON DEBT SERVICE AS WELL AS SHORT TERM COMMERCIAL PAPER HAVE BECOME INCREASINGLY DELINQUENT, SOME FOR AS LONG AS A YEAR, THOUGH PAYMENTS HAVE CONTINUED AT A SLOW PACE.

3. NEVERTHELESS, THE MARCH 12, 1976 DEVALUATION, THE IMPLEMENTATION OF AN IMF RECOMMENDED STABILIZATION PROGRAM, AND A CONTEMPLATED DEBT RESCHEDULING SHOULD HELP RESTORE ORDER TO THE FOREIGN EXCHANGE SITUATION. THE GOVERNOR OF THE BANK OF ZAIRE PROMISED A PROGRESSIVE RETURN TO A MORE LIBERAL IMPORTATION POLICY IN AN APRIL 1, 1976, LETTER TO THE COMMERCIAL BANKS, BUT STATED FRANKLY THAT HE COULD NOT SPECIFY DATES FOR SUCH A DEVELOPMENT. A MORE LIBERAL REGIME FOR INVISIBLE TRANSFER WILL PROBABLY FOLLOW THE REGULARIZATION OF IMPORT RULES. DEBT RESCHEDULING HAS ALSO BEEN REQUESTED BY THE BANK OF ZAIRE AND THE COMBINED MEASURES OF THE STABILIZATION PROGRAM, THE DEBT RESCHEDULING, AND VARIOUS FORMS OF AID SHOULD COMBINE TO EASE SOMEWHAT DURING 1976 THE COUNTRY'S FOREIGN EXCHANGE DIFFICULTIES.

4. ZAIRE SHOULD NOT BE SIGNIFICANTLY ADVERSELY AFFECTED DURING THE COMING YEAR BY ANY INCREASES IN ENERGY COSTS. ALTHOUGH ZAIRE IMPORTS BOTH CRUDE OIL AND REFINED PETROLEUM PRODUCTS, IT ALSO EXPORTS CRUDE OIL. ZAIRIAN-LIMITED OFFICIAL USE

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PRODUCED CRUDE OIL IS TOO HEAVY FOR DOMESTIC USE, SO THE ENTIRE PRODUCTION (ESTIMATED AT 30,000 BPD DURING 1976) WILL BE SOLD ABROAD AND PARTLY OFFSET THE COSTS OF IMPORTED CRUDE OIL AND PRODUCTS.
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